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Ontario

Ministry of  
Industry and  
Tourism

Hon. Larry Grossman  
Minister  
L.R. Wilson  
Deputy Minister



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# A background to the Shop Canadian Program

An industrial development  
policy perspective



A policy publication  
of the Ontario Ministry of  
Industry and Tourism

One of a series.



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# A background to the Shop Canadian Program.

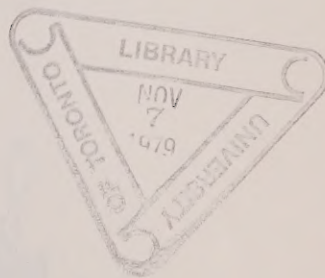
An industrial  
development policy  
perspective.



**Shop Canadian**



A message from the  
Hon. Larry Grossman,  
Minister of Industry  
and Tourism.



The Shop Canadian program is only one element in a broadly based set of industrial development strategies for Ontario. The strategies have a single objective: to help Ontario manufacturing achieve the industrial strength that will be needed to compete world-wide through the 1980's.

We have prepared this booklet to provide a simplified overview of some of the major problems and opportunities facing manufacturing in Ontario. We hope it will contribute to a broader understanding of Shop Canadian within the context of Ontario's overall industrial development strategy.

The Shop Canadian program is designed to help Canadian manufacturers succeed in our own domestic market. Only through increasing sales and increasing profits in the domestic market can most manufacturers develop the greater industrial strength needed to compete internationally.

Of course, Shop Canadian is not the whole answer. Our Ministry will continue to provide leadership in such key areas as research and development incentives, support for export marketing efforts, and the provision of realistic incentives to assure that Ontario gets the high capital, high technology investment we will need to compete throughout the 1980's.

But Shop Canadian, by urging individual Canadians to consider the effects their own purchasing decisions can have on our economy, is an important element in our overall approach to industrial development in Ontario.

One last point: our program is Shop Canadian, not simply "Shop Ontario". We simply can't afford to fragment this country by erecting artificial barriers or preferences between provinces. Since about 50% of all Canada's manufacturing takes place in Ontario, Shop Canadian does benefit Ontario in a very major and direct way. But we know better than to think we can have a healthy Ontario economy within an unhealthy Canadian economy.

## Manufacturing and employment in Ontario.

Manufacturing in Ontario employs more people than agriculture, mining, forestry, construction, finance, insurance, real estate and transportation combined. About one million people or 25% of all the jobs in Ontario are directly involved in manufacturing.

And for every one hundred jobs in manufacturing, there are about sixty-eight other jobs created in service, support and supply work through the various linkages that exist in our economy.

Over the next number of years, manufacturing will, if anything, become even more important as an employer in Ontario. Employment in such other critical sectors as mining and the public service will not expand in Ontario in the immediate future. But at the same time, labour force growth will continue strong into the mid-1980's. A growing share of the new jobs we will need must come from manufacturing.

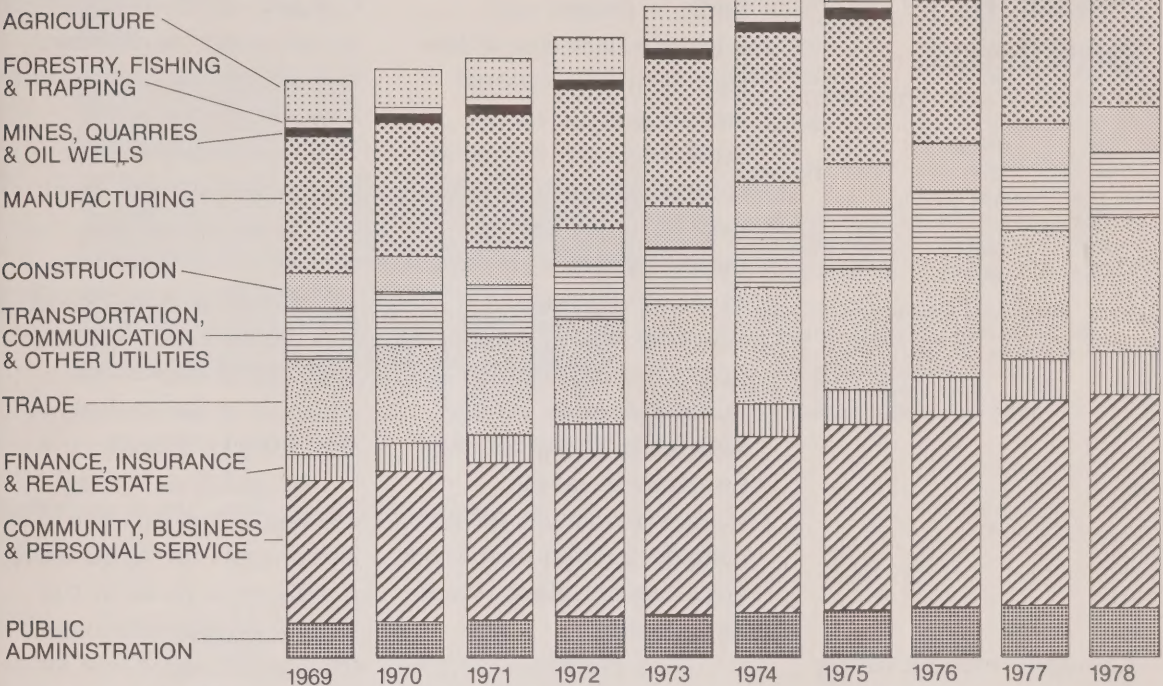
But the trends in manufacturing employment in recent years have not all been encouraging. Although there was strong growth in employment during 1978, there was an actual loss in manufacturing employment in Ontario between 1976 and 1977.

Continued growth in manufacturing employment in Ontario and across Canada is not automatic.

There is a need for governments to develop and apply sensible strategies to help manufacturing build the industrial strength that will be needed to compete throughout the 1980's.

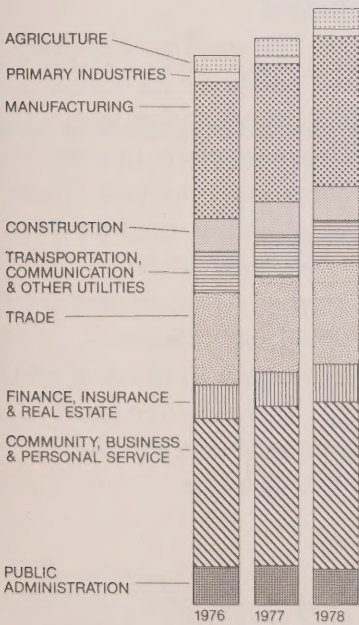


CANADIAN EMPLOYMENT BY INDUSTRY (ANNUAL AVERAGE)



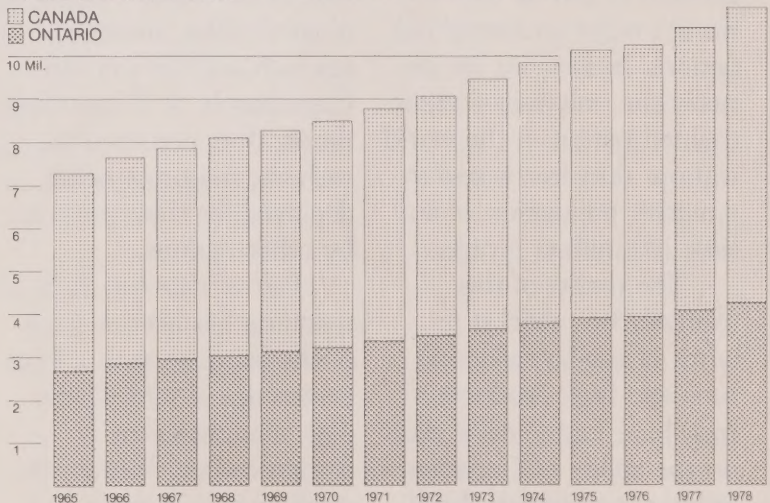
Source: Statistics Canada #71-001

ONTARIO EMPLOYMENT BY INDUSTRY



Source: Statistics Canada #71-001

TOTAL LABOUR FORCE (15 YEARS & OVER) Seasonally adjusted



Source: Statistics Canada #71-001

Ontario will continue to be heavily dependent on manufacturing for employment.



## Manufacturing – the key problems.

Traditionally, Canada has relied very heavily on tariffs to protect our relatively high cost industries from international competition. In recent years, however, increasing competition in standardized or labour intensive manufacturing industries from less developed countries has rendered tariff protection insufficient for many industries. At the same time, the investment necessary to permit Canadian manufacturing to compete in high technology areas has not always been forthcoming.

As a percentage of total output, our rate of R & D spending is less than half that of West Germany or the United States. In terms of total dollar investment in research and development, Canadian R & D spending simply does not compare with the resources being deployed for these purposes by other nations.

Part of that low R & D spending has been a result of the fact that such a large percentage of total Canadian manufacturing is foreign owned. Within the small and protected Canadian market, many firms have limited themselves to applying the technology developed by their offshore parents rather than devoting

resources to research and development in Canada. Canada's tariffs have worked to encourage rather than discourage this tendency in many instances.

The ability of enterprises based on the small Canadian market to generate the investment required to support world scale research and development, or to implement advances in technology, is also severely limited.

In addition, throughout the mid-70's, Canadian unit labour costs increased more rapidly than those in the United States—our biggest trading partner. These kinds of increases had significant effects on the ability of Canada to compete in a variety of industries and markets.

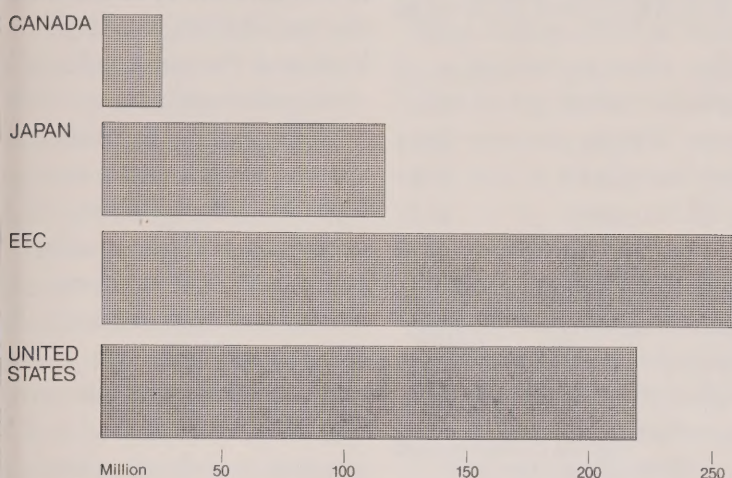
The need is now clear in Canada for increased innovation and more aggressive efforts to command larger markets. There is also a clear need for government strategies designed to assure that capital expenditures—particularly in research and development—are forthcoming from Canadian manufacturers.

Canadian manufacturing has access to the smallest duty-free market in terms of population or total dollar demand of any of the world's major industrialized nations. In fact, we are virtually the only major industrialized nation in the world without duty-free access to a market population of at least 100 million people.

The results of this relatively tiny market in terms of small production runs and high production costs have had a major effect on the ability of Canadian industry to compete, both internationally and in our own market.



# MARKET SIZE POPULATION (1978 Estimate)



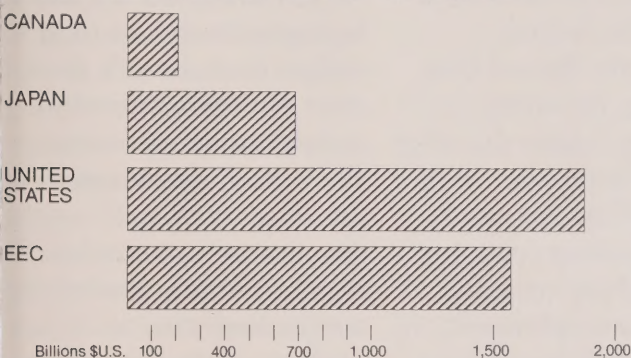
Source: United Nations Monthly Bulletin of Statistics

# TOTAL EXPENDITURES ON R&D (1975)

	\$U.S. (Million)	GDP% *
CANADA	1,701	1.1
DENMARK	398	1.1
FINLAND	230	0.9
FRANCE	5,986	1.8
WEST GERMANY	8,847	2.1
IRELAND	62	0.8
JAPAN	8,767	1.7
NORWAY	255	1.1
SPAIN	262	0.3
SWEDEN	1,216	1.8
SWITZERLAND	1,198	2.2
UNITED STATES	34,588	2.3

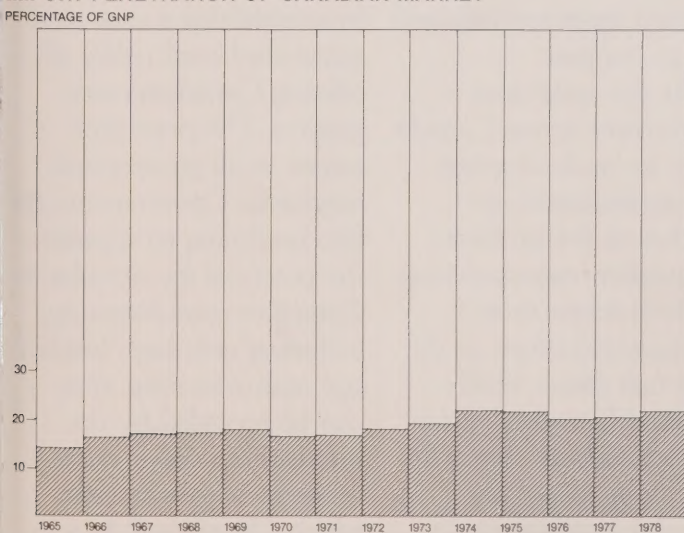
\* GDP is the abbreviation for Gross Domestic Product; it is defined as total production (GNP or Gross National Product) less such items as investment income paid to or from non-residents. It is commonly used in Canada as a representation of actual economic activity.

# MARKET SIZE BY DOLLAR VALUE OF DEMAND (1977)



Source: Business International Industries of Market Size

# IMPORT PENETRATION OF CANADIAN MARKET



Source: Statistics Canada

No other major industrial country has such large import penetration of its own domestic market.

## Manufacturing and the domestic Canadian market: an identified opportunity.

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Largely for the reasons already described, the Canadian domestic market has become one of the most deeply import penetrated markets of any major industrialized nation in the world. In the late 1970's, however, a variety of factors have come together in a way which presents Canadian manufacturers with a real opportunity to regain domestic market share.

By far the most important single factor in the renewed ability of Canadian manufacturers to compete for the Canadian market has been the decline in the relative value of the Canadian dollar. Because of the drop in the dollar since 1976 — some 15% against

the U.S. dollar and as much as 50% against some other major currencies — Canadian-made goods are better able to compete than they have been at any time in recent years.

At the same time, Canadians appear to be becoming more aware of the stake we all have in supporting Canadian manufacturing.

Attitudinal research conducted by the Ontario government, like that conducted on a cross-Canada basis by the federal government, showed that more than two-thirds of Canadians believe that they benefit directly when they purchase Canadian-made goods. Growing consumer concern about economic issues — unemployment, inflation, size of government deficits, and the balance of payments — is more constant and more sophisticated than in the past.

At the same time, governments across Canada appear to be developing more sophisticated approaches to the problems of Canadian manufacturing.

Such major inter-governmental efforts as the sector task forces which examined Canada's manufacturing industry sector by sector have greatly increased the consensus

among governments as to the real definition of problems and the nature of appropriate policies.

The general business climate has improved in Canada. Tax regimes nationally and in virtually every province have been revised to improve the rewards available from manufacturing investment. Special incentives for research and development investment have been established.

Governments are also beginning to show a more realistic concern with the effect of major government and private sector investments on Canadian manufacturing. In overall government procurement policies, Ontario has led the way by beginning to develop a dependable data base as to the total of government purchases, and by establishing a clear and across-the-board policy of offering Canadian-made goods a 10% price preference in all government purchases. Governments are also beginning to appraise the potential for stimulus to Canadian manufacturing, including very high technology manufacturing, that can be provided by the multi-billion dollar energy investment requirements which Canada will face in



the next number of years.

In essence, the Shop Canadian program is an effort to maximize the benefit of all aspects of the opportunities that exist in Canada's domestic market. The most visible aspects of the program are those directed towards the consumer, and the benefits from this part of Shop Canadian can be substantial. Of equal importance, however, is the work being done with manufacturers to encourage them to do more of their own purchasing here in Canada, and with governments across the country to encourage the development of clearer policies of preference for Canadian manufacturing in government procurement and in major investment projects with which government may be involved.

# NET REDUCTION OF THE VALUE OF THE CANADIAN DOLLAR RELATIVE TO OTHER CURRENCIES

Canadian Dollar	U.S. Dollar	British Pound	German Mark	Japanese Yen
1976	0.9861	1.7811	0.3920	0.0033
1977	1.0635	1.8571	0.4586	0.0039
1978	1.1402	2.1890	0.5691	0.0055
1979				
January	1.1898	2.3863	0.6435	0.0060
February	1.1955	2.3960	0.6439	0.0059
March	1.1739	2.3924	0.6312	0.0056
April	1.1463	2.3772	0.6051	0.0054
May	1.1556	2.3799	0.6059	0.0053

Source: Bank of Canada

*The lower Canadian dollar means that Canadian-made goods can compete more effectively in the domestic market, as well as internationally.*

## Shop Canadian program elements .

ongoing effort to assist and encourage manufacturers in the location and development of additional Canadian suppliers for their own purchases.

The third element of Shop Canadian concerns government procurement policies, in Ontario and across Canada. Its objective is to encourage the development of clearly stated nation-wide policies of preference for Canadian-made goods in government purchasing, and of clear and aggressive government policies to assure the maximum practical Canadian content in major investment projects in which government has either direct financial participation or other involvement.

### **The Shop Canadian consumer program.**

The Shop Canadian consumer program is based on a major consumer advertising campaign which strives to remind Canadians of the real benefits to Canada of purchases of Canadian-made goods.

The advertising is careful to stress that the Canadian purchase makes good sense "when quality and value compare". Since the market research conducted by the Ministry of Industry and Tourism demonstrated

that far more Canadians stated a preference for Canadian-made goods (67%) than routinely checked to see where the products they bought were made (40%), the reminders provided by the consumer advertising campaign can significantly affect purchasing behaviour.

The advertising is supported by a strong point-of-purchase program operated in co-operation with the Retail Council of Canada. This program encourages shopping centres to mount Shop Canadian exhibits or other promotions of Canadian-made goods, and to display Shop Canadian point-of-purchase materials throughout their stores — once again to remind the consumer to check for country of origin when selecting products. This aspect of the consumer program resulted in more than 170,000 pieces of point-of-purchase material being placed across Canada during the 1978 Christmas shopping season, and will continue with a series of major shopping centre promotions throughout 1979.

The market research conducted by the Ministry of Industry and Tourism also indicated that younger people tended to be less aware of the direct connec-

Generally speaking, the Shop Canadian program can be divided into three elements directed at three different audiences.

The first element is directed at the consumer and the retail market. Its objective is to turn the high personal preference for Canadian-made goods into increased market share for Canadian-made goods at the retail level.

The second element in the program is directed towards manufacturers. It consists, first, of efforts to persuade manufacturers to support the consumer program by clearly marking and promoting their goods as being made in Canada, and, secondly, to have an



tion between their own purchases and employment than older Canadians. Partly in response to this finding, the Ministry of Industry and Tourism, with the co-operation of the Ministry of Education, has worked with professional teachers' associations in Ontario to develop a school program — "The Great Made-in-Canada Label Hunt". This program provides classroom projects which students can use to analyze the employment effects of their own and their family's purchases.

### **The Shop Canadian program for manufacturers.**

The heart of the Shop Canadian program for manufacturers has been a series of more than 2,000 personal visits to manufacturers across Ontario conducted by the field consultants of the Ministry of Industry and Tourism's 15 regional offices.

The manufacturers have been urged to evaluate three major opportunities that exist in the domestic market. First, manufacturers are asked and encouraged to support the consumer program by marking their products clearly and by emphasizing in their advertising the fact that they are manufactured here.

Secondly, manufac-

turers are urged to analyze their markets to identify market areas where, in the past, they may have found it impossible to compete but where, due to the lower Canadian dollar, they may now find themselves in a much more competitive situation. They are also urged to evaluate the possibility of making sales to governments — particularly in Ontario where the clear 10% preference for Canadian-made goods increases their ability to compete still further.

Thirdly, manufacturers are being urged to evaluate their own purchasing policies to identify areas where they may achieve savings by purchasing from Canadian suppliers. The Ministry of Industry and Tourism has worked closely with the Purchasing Management Association to identify a number of areas where there are opportunities for Canadian manufacturers to make sales. In addition, the Ministry helps manufacturers to source throughout Ontario using its own computerized sourcing capability.

Since a great deal of Ontario manufacturing is intermediate manufacturing — that is, manufacturing that produces products that will be further fabricated or

processed — the potential for gains in this area is significant.

### **The Shop Canadian government procurement program.**

One of the greatest contrasts between the kinds of industrial development policies that have traditionally been applied in Canada, and those used in other nations, has been the very high degree to which Canadian governments have relied on tariffs while making little or no use of such non-tariff policy instruments as preferences for domestic manufacturers and government procurement policies.

Consequently, it is common for Canadian manufacturers to face competition for Canadian orders, in Canada, from companies whose own domestic markets are totally closed to Canadian manufacturers.

Canadian governments do not even have a reliable data base as to their total purchases of manufactured goods or those of their Crown Corporations.

As a first step, Ontario has established its own clear 10% preference policy, and has begun work on the development of an acceptable and reliable data base.

It has established import replacement as a functional objective for government purchasing agents, and, through the Ministry of Industry and Tourism's computerized sourcing capability, offers the same assistance to government purchasing agents in locating Canadian suppliers that it offers to manufacturers.

In addition, the Ontario Ministry of Industry and Tourism sponsored a major government purchasing opportunities exhibit and seminar in November of 1978. Manufacturers were invited to come and meet government purchasing agents, and examine the specifications of products which were currently being imported. As a result of the 2 day seminar, more than \$3 million in government purchasing was shifted to domestic suppliers virtually immediately.

Ontario is working now to encourage other Canadian governments to develop similar clearly stated policies of preference. In addition, Ontario is stressing that preferences within Canada should be applied on a nation-wide basis.

Different systems of preference, applied on a province by province basis, would only have the effect

of fragmenting further the already small Canadian market. This would aggravate many of the problems our manufacturers have faced in the past.

Ontario is particularly interested in developing clear and acceptable nationwide approaches to the major capital projects being planned across Canada, including most outstandingly the energy investment projects that will be undertaken in the next number of years. This concern has already been pointed out clearly to the federal government, and Ontario is also reviewing the feasibility of undertaking bilateral discussions or studies with other provinces to more accurately identify the potential benefits of greater Canadian manufacturing participation in these projects.

### **Summary.**

The Shop Canadian program is not the whole answer. To prosper through the 1980's, Canadian manufacturing will have to develop the industrial strength needed to compete world-wide. But taking advantage of the opportunities that exist today in the domestic market can be an important step in the development of that indus-

trial strength.

Increased Canadian market share will contribute to greater economies of scale, higher profits and increased ability to re-invest. The major orders that will be resulting from many of the major capital projects that are on the horizon can provide the basis for Canadian manufacturing to build a technological lead over its competitors in other countries.

And even at the consumer level, the potential impact of Shop Canadian can be huge.

If each family in Canada diverted only enough of its consumer purchases from imports to Canadian-made products to create one additional day's work, the net effect would be more than 32,000 new permanent jobs in Canada. That is significantly more jobs than would be created by the Alaska natural gas pipeline.





